"Elecon Engineering Co. Ltd. Q1 FY22 Earnings Conference Call"

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Diwakar Pingle: Welcome participants Welcome to the Q1 FY22 earnings call of Elecon Engineering Company Limited. We have the top management of Elecon represented by Mr. Prayasvin Patel, Mr. M Nanda who takes care of the Head Gear Division and Mr Narasimhan who is the CFO. We will start the proceedings with a brief overview of the quarter, given by Mr Prayasvin, and then we'll go to Q&A session.

Prayasvin Patel: Thank you. Good morning to all of you. It's a great day today, especially for India because yesterday the Olympics have just ended and India has got the highest number of medal tallies. So, this is the first time that we have won so many medals, and we are also very proud that we received the gold in javelin.

Apart from that it is also a great day for Elecon and the reason is that if you see behind me, there is a huge gearbox which is gone into the first aircraft carrier that India has produced on their own in India, in Cochin Shipyard and the sea trials are going on and our gearbox, the main propulsion drive of this INS Vikrant has been supplied by us and it has been doing extremely well. The results have been extremely good. This is also the first time that any gearbox in the first trial without any glitch has performed so smoothly and excellent without even doing any minor tweaking. So it's also a very proud moment for India, that our own indigenous aircraft carrier INS Vikrant has started floating, have been started doing trials and you should be proud that our company has supplied the main propulsion. So, it's a great honour and a great privilege. So, thank you for being part of this because, we at Elecon are extremely excited and thrilled about it that we were able to contribute so positively towards the welfare of our nation. So it's a big and proud moment.

The presentation for the first quarter results and the description and analysis has been posted on our website. So I would request you to visit our website and have a look at it, it gives you all the information that you require. With this I would be ready to take any questions that you have because the statistics are all known to you, I don't need to repeat this. So, with this I'm ready for a question and answer session.

Diwakar Pingle: Anyone who has a question can press your raise hand button, and then we'll open up for Q&A. The first question is from the line of Zaki Nasser, please go ahead.

Zaki Nasser: Prayasvin bhai good morning, and I think congratulations to you and your team on such a fabulous first quarter performance and more so because of the gearbox for our defence ship. I mean it's a great achievement, sir.

Prayasvin Patel: Thank you. Thank you for everything.

Zaki Nasser: Prayasvin bhai during the previous quarter ended December results, although the indications for Elecon turnaround were present you were may be 70-75% confident that the year ahead will be great. But, since the March quarter and consequently the fantastic June quarter results do you think Elecon has taken on another path and will regain its lost glory. And also, sir you were mentioning about the material handling division, about something you would want to do in terms of restructuring that. So, what about that sir.

Prayasvin Patel: Thank you. I would also like to mention out here that the gearbox that we have supplied for INS Vikrant is the type where very few countries in the world can produce such kind of gearboxes and of which there are hardly five or six companies in the world who can produce these kinds of gearboxes. I can proudly say that we are the only one in India and among the top five in the world who can do this. So, that also is a big achievement. Coming to your questions, December you said that I was 70-75% confident. I always believe in being a bit conservative, why we were expecting that the gear results would be good, there were some corrections that were necessary for material handling to reach the level of performance that we were looking for, because it was a vast amount of restructuring that we had to do, because we had to shrink the organization from an organization which once upon a time, was doing almost 700 crores down to 150 crores plus we had to organize ourselves in a very different manner because the kind of business that we were doing, which was more of contracting and projects was now transformed into products exclusively. So that was also a big shift, you know repositioning the manpower, doing a lot of changes, so all that was happening and till it was not finished I did not want to give you any wrong indications. Now, that has been done, and we are able to see light at the end of the tunnel and apart from that, gear has always been performing good but now it has reached a situation where we are very confident that even our foreign offices are going to contribute in a big way to more exports, the domestic after sale service businesses also healthy, as well as our new business which new orders that we get are also with reasonably good margins. So, going forward we are very confident that the year will go quite well and we see a good future.

Zaki Nasser: Sir, about the material handling division.

Prayasvin Patel: Material handling, as I told you, the orders which we had taken earlier, the project orders, out of which two NTPC jobs, which were ones causing us a lot of anxiety, they are right now, almost 98-99%. There is final tweaking that is happening at site and we are reasonably confident that by 30th of September, even if it stretches beyond may be 30th of October, we will be signing the documents with NTPC, and in exiting those two projects. So if that happens then, majority of our bleeding would stop, as well as the other projects which are going on, we have a big program of closing those sites and getting out of it. Lot of it has already been done and we are reasonably confident that this year the losses from material handling would almost come down to zero.

Zaki Nasser: That is fantastic. And our debt level last year was around 300 crores. With the redemption coming back and all that, what expectations would you have by the end of the current financial year that is March 2022.

Prayasvin Patel: First of all, there are two things that we are doing about the debt. While we are trying to reduce the debt, on the other hand we are trying to refinance our debt, so that we bring down the cost of interest on the debt that we have and I am reasonably confident that we will be able to save a few crores of rupees in refinancing the debt, as well as there is a continuous endeavor to keep on reducing the debt, as far as possible. If you look at the history, you will find that on a continuous basis we have been producing debt, and now with the healthy financial situation that we have and profits increasing that would be also further excellent.

Zaki Nasser: Fantastic sir and best wishes for team Elecon. Thank you.

Diwakar Pingle: Thank you Zaki. The next question is from Manan Shah.

Manan Shah: Hi sir. Congratulations on a good set of numbers and congratulations on the successful delivery to the Indian Navy. I'm fairly new to the company so pardon if my questions are a little bit rudimentary. Sir, so I was just looking at our numbers so first on the gear division, so in the past decade, our gear division have not been able to clock revenues higher of 900 crores and in the previous quarter also you indicated that we are operating at around 50-55% utilization. So, if you can just throw some light and currently we have some around 417 crores worth of orders in the gear division. So if you can just throw some light of where are we looking on scaling this division and what kind of revenue can our current facilities generate. So, is it possible to reach 100% kind of utilization or 90% practically or a 70-80% catalog utilization would be a peak utilization that we can generate and what sort of order pipeline do we have, since we cater to most of the core sectors, and we are already seeing those sector announcing huge capex. So if you can just throw some light on that.

Prayasvin Patel: Manan, I would put it this way that we had installed these capacities, during the time that India was going through a big way. So, thinking optimistically we thought that if we installed these capacities, we would get a head start, and would perform quite well, on the other hand after that came in the recession and then the utilization, decreased to almost 40%. The company took a lot of measures to reduce the operational costs, so that even with 40%, we were able to break even and generate margins. Later on, as now what we stand, is that the investments that were made for additional capacities they have depreciated. Apart from this, we are seeing that the increase in demand coming from exports where the margins are healthier than what you find in the domestic business. There is the after sales or I would say the customer service and after sales, which is also showing a very healthy demand because we have gear units which are almost down 30-40 years old. So, those are coming in for repairs and for replacement of parts and things like that and new orders that we are taking, we have made sure that the payment terms, the terms and conditions and the margins are getting to a reasonably healthy level. So, all this has seen to it that the upsurge in profit continues and we are reasonably confident that this would continue. Now as long as capacity utilization is concerned, normally if we are able to achieve 80-85% capacity, that according to me would be reasonably healthy, the reason being that ideally speaking you can go to 100% or let say 95% but because, for that you would require an ideal products which never practically possible because you get variety of orders of different types and sizes and therefore, I would put it as 85% would be the maximum that you could do practically.

Manan Shah: Ok. And on the bid pipeline for orders like what sort of order books should we build up going down the line, because earlier you've mentioned that our orders are generally executed in 3-4 months.

Prayasvin Patel: Right.

Manan Shah: So, the current order book would also be executable over the similar kind of timeframe and what kind of order book are we looking to build up over the next few months.

Prayasvin Patel: See normally, our order execution cycle if they are standard gearboxes, catalogue gearboxes they are about six weeks which is 1.5 months, and if they are custom built, it could be almost six months. Now the order book that we have as of now, we have to understand and the figures that we have given you are including the Navy order. Now that Navy order if you deduct, the orders are reasonably healthy to keep our rotation going strong and that is exactly what you need, you do not want access order booking because today the steel prices are fluctuating and therefore you would like to have just enough orders. To keep your wheels turning in a robust manner.

Manan Shah: Then coming to the material handling division as you've mentioned we've scaled down that business significantly and so we have idle assets over there and now we are planning to be more of a product company then EPC kind of a company. So what is the plan have we setup any plan of action on that division. What kind of topline are we planning in that division so if you can just highlight on that and then lastly, from my side now as we expecting these two NTPC projects getting over so what kind of release, are you expecting from the receivables.

Prayasvin Patel: The receivables are showing an improvement on a continuous basis. There are internal targets that have been laid out for receivables, but it is very difficult to actually ascertain as to what would be recoverable because quite often, the customer does not maintain the time. So, though you may receive the amounts, quite often there is good amount of delay in getting those businesses but we are trying to continuously put pressure on the clients so that we keep on getting money and quite often it also trickles down, which means, instead of getting the entire amount, you get it in bits and pieces, but we are on it and we are reasonably confident that this year also we will be collecting goods, and large sums of it. On the other hand, let me tell you, as long as the utilization of assets of material handling are concern, right now majority of them are lying idle. We are looking at various businesses that we can adopt, so that we can diversify into product lines which would be either in the construction business, or into other heavy mechanical engineering areas where we can utilize our facilities and increase our turnover further. But conservatively speaking, I would say that it is at least six to 12 months away because by the time you select what you want to go into and mobilize yourself into that business, it would take some time.

Manan Shah: Thank you.

Diwakar Pingle: Thank you Manan. Next question is from Nilesh.

Nilesh: I am Nilesh here, sir. How are you, very nice to see a lot of happiness on your face, compared to what we spoke a year and a half ago sir.

Prayasvin Patel: You know that COVID gives you a lot of tension.

Nilesh: I just said, my question is, one on this navy gear boxes so after having gone through these experience, have we developed capability to design these gearboxes or we are still not at that state.

Prayasvin Patel: That's a very good question. I would explain it to you a bit differently. Indian Navy has requirements for gearboxes of all kinds. They are extremely simple gearboxes, then a bit complicated, and then most complicated. Let's say we are at step number two, we can design and execute easily the simple and the reasonably complicated gearboxes, but the most complicated ones are extremely tricky, and for that we have yet to develop the kind of experience that this, but I'm sure that over a period of time we will be able to do that. On the other hand, let me tell you one thing that the problem is we have not enough orders, whereby we can develop that expertise to the level that we would require. As I told you that over a period of time, we would gain more and more experience, and then we should be able to do it.

Nilesh: Second, is you mentioned that you are seeing a lot of signs of development and in probably inquiries on the export area, and we have been seeding the US market, particularly for last more than five, six years. So can you, please help us in more detail exactly at what stage we are, how are we seeing the inquiries coming in from what sectors in US, and how do we see, especially the US market over the next three years in terms of, because I think that's a very large market as you had explained once, right. How do we see ourselves over the next three years in terms of some kind of a ballpark, revenue, and thinking?

Prayasvin Patel: Let me put it this way, US is the most promising market because it is extremely large. Right now we don't even have 0.1% of the market. We are just exploring the area and territory. But what is important is that we have started getting breakthrough from reasonably good customers important customers not only in the US, but US also has a windfall coming in from South America, which means that South Americans order gearboxes in United States. Okay, especially the large and heavy. And we had the opportunity to serve, Chile, Peru, as well as Colombia. So, we've got breakthroughs out there, and they are also reasonably happy with the performance of our gear units. Apart from that, we've got breakthrough in the United States in various fields like cement, rubber, steel. So, we are hopeful that because in United States, the type of industries that are existing out there are varied, and mean. So I would say the opportunity is fairly large, what we did about three years ago is our best marketing and Application Engineering person, we shifted him out there to the United States, together with his help, we rebuilt our entire marketing structure out there and started approaching clients with our application engineering and experience and references, and that has started paying. And over a period of time, we are seeing a growth of almost 20-25%, every year over year. As long as, our products are concerned, and we are hopeful that this will continue, going forward.

Nilesh: How do we take care of spares and services in these kinds of markets.

Prayasvin Patel: We have a setup out there. We have an assembly unit out there. So we bring in these gear units back out there and then whatever needs to be replaced those parts are sent from here and then replaced and if they are required urgently they are sent by air, so they get them very fast, and then they are replaced.

Nilesh: Coming back to the Indian market, what kind of growth are we seeing in the gear business on a Year-on-year basis, if we exclude the navy business.

Prayasvin Patel: As I told you we were scared when COVID came in, because you know we were worried that the market may completely slump that luckily, did not happen. And we have seen that in the last years, at least a growth of 8-10% on a continuous basis, you know we are seeing a growth of that kind. And we are hopeful that at least that should continue.

Nilesh: Okay sir. Thanks a lot. I'll get back to you the queue again if I have any question.

Diwakar Pingle: Thank you Nilesh. The question is from Ankit.

Ankit: Good morning sir. So my first question is, again on the gear business just mentioned that 8 to 10% kind of growth is visible for you in the coming year in business, but, you also mentioned that your current utilization levels are around 50-55% and peak can go to 85%. So, you know once you reach to those levels, what kind of margins can be seen in the gear business at the EBIT level. I mean, last year we did some 21% EBIT level. So with operating leverage coming in, what is the scalability and margins in this division.

Prayasvin Patel: It is difficult for me to tell you that because again it depends on the product. But what you can take it as a certainty is that they will go through substantial change, because our fixed costs are quite high. And once they are covered the margins would keep on continuously but it will all depend on the product.

Ankit: Okay. But is there a possibility of like going to 25-30%.

Prayasvin Patel: Yes, for sure.

Ankit: My second question is on your MHE division. So you did mention that from now onwards they are not taking any EPC orders, but the product business will continue. So what could be the run date of that product business on an annualized basis, I mean, would it be like 200-300 crores. And on that base, what could be the margins, at EBIT level.

Prayasvin Patel: Right now we are targeting anywhere between 130-200 crores, as the turnover oh material handling division.

Ankit: Okay.

Prayasvin Patel: Now, out of which a sizable amount is the after sales business, and the rest would be products. Now here also we are being very picky because unless we get the desired margin levels, our payment terms, we do not want to sell products and create losses for the organization, or have a negative cash. So considering all that, we are going very conservative. We have fine tuned the organization for that kind of turnover. And we believe that if we are able to do this over a period of time, we would be able to generate at least 15% to 20% at the EBITDA.

Ankit: Okay. And so my other question again on gear business. Who are your main customers in India and in any particular corporate which form majority of the revenue?

Prayasvin Patel: I would say Ankit, you would be proud to hear that almost everyone in the whose who list would be our customers because since the gears go into various kinds of industries, all the big names are definitely having at least a few gearboxes of ours.

Ankit: Who is your main competitor?

Prayasvin Patel: Because we have a very wide product range, for every product line, there are different competitors. But I would say generally speaking for the big gears, we have a Flender, which is a German company. Then we have Premium gears and then we have Shanti and we have New Allen.

Ankit: So the German player and Premium all those have facilities in India.

Prayasvin Patel: Yes. They all manufactured in India. The German company manufactures majority of them in India but there are a lot of products were they also import assembled out and partially manufactured.

Ankit: Okay. What would be your market shares in the addressable opportunity in the gear business.

Prayasvin Patel: Generally speaking, our market share is about approximately about 30%, but we are the largest in size, and our nearest competitor would be almost 60% our size.

Ankit: And so my last question is you did mentioned about the growth in the gear business. Sir, 10% growth you're expecting only in the India business or for the company as a whole, including the export once.

Prayasvin Patel: I would say 8-10% would be in India, and the export business, which today if you look at the total business, it is not substantially large. There we are expecting, even a higher growth rate than that.

Ankit: So any ballpark idea for the company as a whole in the gear business what kind of growth, you're looking at, including the export for the next couple of years.

Prayasvin Patel: Let's put it this way that if we are able to do 15%, we would be reasonably happy.

Ankit: That's helpful. Thank you so much.

Diwakar Pingle: The next question is from Karthi.

Karthi: Good morning sir. Thanks for the opportunity. Can you talk about the pricing environment I see that your steel component or metal component has gone up in terms of your input cost. So can you talk about the pricing environment and do you see that, how are we able to correct it, some thoughts on that.

Prayasvin Patel: See, because we have a short cycle of execution, so we e have been very cautious, because the steel prices have been increasing to a considerable level suddenly. So, all the new quotes that would go in would be at new prices considering the present price signal. So because they are as I told you, our product cycle at an average varies from six months to six weeks i.e. 1.5 months. So, all the new bids would be going at new prices. Therefore, we are very microscopically affected by increases.

Karthi: Would you also be able to share with us the split of your order books, in terms of standard and custom products on an ongoing basis because that will help us understand how the business is evolving.

Prayasvin Patel: Mr. Nanda, would you be able to tell us how much is the...

M Nanda: Around 60% is the catalogue product and 40% would be engineered product.

Karthi: So would there be any inventory gains on the standard product size. I'm asking this because or do you start making it after the order is received? How exactly does that work?

Prayasvin Patel: Normally, we stock the raw materials because they are round bars, which means rolled round bars, and then we cut them to size based on what we required. So we keep some material in stock and then they are mass produced, especially the catalogue products.

Karthi: Sure. Thanks very much, and best wishes.

Diwakar Pingle: Thank you Karthi. Next question is from Sunil. Sunil, you maybe go ahead.

Sunil: Hi, thank you very much sir, congratulation for such a result. Looking at the languages spoken initially and the way you supplied this proposing deal to defence, I think we have so many this type of quality and capabilities. So if you would like to talk something on what exactly or what specifically capability and competitiveness we have, in terms of local market, in US market, the way we are penetrating the US market. Larger picture qualitative, may not be quantitative will be very helpful.

Prayasvin Patel: Let me give you some background, first of all, the good thing about your company is that, the fact is that we have one of the largest, or let's say, the widest variety of products in our portfolio. If you look at let's say, the smallest gear that we might be manufacturing might be Rs.10-15 thousand, and the largest might be almost close to Rs.100 crores. So, the varieties of products that we manufacture are very large. Practically, I would say the largest gearbox manufacturer in the world, they have this kind of variety, and ours is even larger than that. So what we have is these are products which are all active, which means that it's not only on paper, we are selling them and in India probably in all our products that we sell, barring one or two, we have the largest market share. Apart from this, I would say that we have a very strong and robust engineering team, which is able to develop new products, are able to improvise on product lines that we have and so forth. We have the capabilities, let's say, if you talk about last five years, the cement and vertical cement mills and vertical cal mills were being imported from Germany and Europe, which we are the only company in India who is producing that and we have been able to successfully deliver a lot of them to our customers out here. And today our competitor in this field is Flender, they are partially importing products components and then assembling and then selling out here, while we completely manufactured the entire unit out here and we sell them. Apart from receiving this technology by a licensed arrangement from REC, we have further developed this enhance the series to larger size units and also made sure that we are able to optimally design them and improve the performance by reducing our manufacturing cost. So, those are the kinds of things where we are also an expert at. Apart from this because we had an R&D centre and the government had given us a lot advantage in having an R&D centre. We went ahead and developed a lot of series of catalogue gearboxes, where we were finding it difficult to compete with the big giant’s world over, so we redesigned our units made them very competitive and now we are getting a lot of orders from those kinds of gears also. So those are also large and complicated products. Similarly in the sugar field we've been competing with Premium gears for our sugar planetary gearboxes, their processes are far more sophisticated and better than our competitors. And this is the third or fourth generation of redesigning that we took because the environment is very competitive and we redesign them to make them more economical, and still the performance would not be deteriorated, we did all these because we had the capability to do that, while our competition does not have that kind of expertise. So, these are the kind of specialities that we have going forward. I mean I can go on and on Sunil but, I can tell you very proudly that we are one Indian company who are fighting shoulder to shoulder with all the foreign companies and we have far more capabilities than most of them.

Sunil: So, I'm very hopeful looking at the way you are saying with all this capability, I think we'll be able to compete and bring interesting stuff also.

Prayasvin Patel: Yes, we are doing so, even right now. And quite often you know, when we meet some of the American clients, they are taken aback that you have so much of capability.

Sunil: So Sir, will it require any additional things, I think since last 3-5 years we started doing everything possible. So, any additional things be required to do to penetrate very heavily in US or international markets, or this is already planned everything or done.

Prayasvin Patel: See Sunil, we have been benchmarking ourselves with the best of the best in the world. So, all the equipments which are required, we have not compromised anyway in buying those best equipment and installing them and seeing to it that our boys who are on the shop floor have been trained to utilize this equipments very thoroughly. Now, the question remains that, yes, you will always have something or the other that you require to add on slightly to be perfect for the requirements of export which will keep on doing to a minor extent but I don't think that that requirement would not be more than 10 to 15 crores on an annualized basis. That is also on the higher side.

Sunil: Great Sir. I think you and your team, Mr Narsimhan the way we are managing our finances also. We are really on a very good track. Thanks a lot and wish you good luck sir.

Diwakar Pingle: Thank you Sunil. The next question is from Rahul Dhruv. Rahul you may go ahead.

Rahul Dhruv: Congratulations Mr. Patel. I think it's a fantastic show again just wanted to check with you on two or three things. One was the retention money that you had mentioned last time of around 250 crores which is lying in the material handling business, what is the status on that, when do we think we can get major part of it or all of it.

Prayasvin Patel: Narsimhan would you like to answer that?

Narasimhan Raghunathan: Mr. Rahul what we have indicated, the retention money is predominantly depending upon the completion of the activities and handing over the projects, that is when this retention money will be returned back to us. In the past at least nine months or so, we have been able to close around 3-4 projects and they were not as big as what is going to come in next 1-2 months, as what the CMD has indicated. Based on the projects, which we have completed, we are able to collect the retention money at the same time in the next six months, based on the projects which will be completed, we will be able to claim those retention. So, that is outlook on retention money.

Prayasvin Patel: Narsimhan, it would be better if you can give some kind of indication as to what is approximately expected this year.

Narasimhan Raghunathan: This year at least going forward, we expect around 25 crores to be received and once the balance projects gets completed next year we should be able to project even further.

Rahul Dhruv: Sorry, so, 250 crores out of which you'll receive only 25 crores this year.

Narasimhan Raghunathan: Yeah, based on the projects which has been completed, like what CMD had indicated that in the next six months also there is quite a lot of projects which gets completed, so 25 crores does not factor in that. So, based on that projects completed it is 25 crores.

Rahul Dhruv: Okay. My next question was on the cash flow, I think they're looking at an operating cash flow of around 200 crores. And, of course, as you mentioned that you're working pretty hard to reduce the working capital days as well. So, we are looking at anything more than 200 crores, wouldn't that basically mean that we would be a debt free company by the end of the year.

Narasimhan Raghunathan: What we are trying to do is that we are trying to reduce our debt as well as we are also trying to reduce our debt towards our suppliers, subcontractors and various other stakeholders. So we have to balance between both these. So our efforts will be on both sides. So whatever the cash flows which you see will go towards reduction of the debt as well as the debt towards the suppliers and other people.

Rahul Dhruv: Just going back to your earlier mentioned of the material handling business being used for, equipment being used for, plant being used for other things and you mentioned mechanical engineering and construction, could you give little bit idea to us to as to what are we looking at, what kind of products and mentioned 6 months. So, would it be that easy to really start a totally different product line.

Prayasvin Patel: Rahul, right now we have very large and heavy general machining equipment available with us, which can be used in any type of industry. What we see right now is that road building and bridges and those kinds of activities are a today booming because the entire nation has got down to building and construction. So, we are exploring the possibility of manufacturing some heavy mechanical engineered products, which go into that kind of industry, but still the survey is on and hopefully if we can zero in on something, adopting and then starting it would not take much of time. There are also other lines that we are looking at, we have been approached by one German company to manufacture water pipes, developer machine tool for manufacturing water pipes and so forth. So, there are various opportunities that we are exploring, right now it is very difficult to say as to what would be selected by us, it will all depend on the kind of customers that you sell to, the kind of profitability that you are able to get from those products and so forth.

Rahul Dhruv: Thank you so much. And one last you mentioned in the material handling revenue of around 130-200 crores, you current run rate is around 120 as in last quarter was around 30 crores. So I am just checking what exactly are we looking at growth going forward because we have clearly mentioned last year that we will bring it down to quite a bit or shut it down and do only products which will basically result in revenue decline and EBITDA or EBIT which is almost zero.

Prayasvin Patel: We have a sizeable part of after sale which is 100+ crores. So if you look at it, if I have to sell my products to meet my target I need to do only 30-40 crores which should not be difficult at all. And these is because of the fact that we select the client whom we are comfortable with, we select the payment terms and if we do not get enough profitability we are not interested in selling the product to the customer and therefore we have put a very conservative target and therefore I am saying that it vary from anywhere between 120-130-200 crores.

Rahul Dhruv: Ok great. You mentioned also that the interest cost you will be able to save couple of crores because of the fact that you renegotiated and I see your average cost of debt has been consistently going up. So, what kind of reduction can we expect because I see a lot of them are 2023-2024 maturity in the balance sheet.

Prayasvin Patel: Narasimhan would you like to answer this?

Narasimhan Raghunathan: Rahul generally you know that liquidity position in the market is quite good. And we also had to borrow at certain point of time 2-3 years back at a higher cost. Now, we are looking at the average debt, some of them were ranging between 12-13%. So, those debts we are looking at around 8-9%.

Rahul Dhruv: Okay, there is some debentures also at 17% if I am not wrong.

Narasimhan Raghunathan: Yeah. So, the debentures also we are refinancing this month. So, for that also effective rate would be around 8% or so.

Rahul Dhruv: That's fantastic, thank you so much.

Diwakar Pingle: Thank you Rahul. Next question comes from Shubham Agarwal. Shubham please go ahead.

Shubham Agarwal: Yeah, thank you for the opportunity. Sir, firstly, I would try to understand the export business a bit better. So, given our total order book of 400 odd crores, what would be the total component of export business out of this and typically in the export business, how do we see the margins compared to domestic. You mentioned that it is healthier but how much percentage point extra that we get out of the export business if you can help us understand a bit.

Prayasvin Patel: See, exports is normally 1/3 of our business, you have to remove the navy business from it, but at an average it is 1/3 of our business, so let us presume it is 30%, then30% is our exports as of now and we want to increase it at least to 40-45% over a period of time. Now, the margins normally in exports are anywhere between 5-10% higher than what you do you find in the domestic market.

Shubham Agarwal: Right. Thank you and secondly, on the after sales business, so, both in the gear and MHE division, as you mentioned that after sales forms a major part of the total sales. So, I would like to understand how much of an after sales business is generated, let's say 1 crore of business that we do in gear division or MHE division, if you can help us understand that. And on continuing this question, like in MHE division, you said, all the legacy order majority of the orders will be executed by September and post that we'll be left with after sales and some of the product business. So do we expect positive margin from Q3 onwards and if so, how much.

Prayasvin Patel: Our target this year is that if we are able to get to zero level as long as material handling is concerned and pay an interest cost of almost 20 crores out of it, we would be happy because you have to understand that MHE also has a debt which we have to service, which is sizeable, so that is one aspect. The second aspect is that going forward as long as gear business is concerned; they will continue to generate healthy margins and therefore the margins were getting reduced earlier because part of it was being absorbed by material which one could when stops then all the margins that get generated from here are available to the company.

Shubham Agarwal: Okay. And on the aftermarket part of the gear division, so generally how much of a business is generated out of that for every sales that we do in the gear division and what is the typical margin in that?

Prayasvin Patel: I would say the maximum it generates is 15 to 20%.

Shubham Agarwal: Okay, got it and the margins.

Prayasvin Patel: Spares always have healthy margins.

Shubham Agarwal: Okay, thank you. That's it for my side.

Diwakar Pingle: Thank you Shubham. There were a couple of questions on the chat board, which will just read out to the management.

This came from Shanti Devi. So the first question was which are the critical factors, which helped Elecon to win projects against German premier companies as they also manufacture in India, and to some level were able to take advantage of low manufacturing costs in India. So they're not stated, which company they are talking. Basically, what is the right to win Elecon to win projects in India is what they are asking I presume so.

Prayasvin Patel: See the good part is we have earned the reputation where our product and German product is considered to be equal and there is no reason why they give any reference to the German product. Now that German product is also, majority of the times is completely manufactured in India. In highly specialized cases part of it comes from Germany and part of it is done out here while we do 100% out here. The client normally gives you weight age for product which is 100% produced in India, because of the fact that if he needs spares on an urgent basis, then we are able to provide a lot faster than the competition, so that is one aspect. The second aspect is the client considers both of them equal, there is no preference given to the German product and the client has been using our product in majority of the cases, and has been fairly satisfied with us and therefore he doesn't give any additional weight age to the German company. As a matter of fact normally our deliveries are better than that of the Germans, because of our past capability and manufacturing setup and the fact that we have much larger resources than the German company. We are able to deliver the product much faster than the competition.

Diwakar Pingle: Thank you, Mr. Patel. I think this follow on question, which says in exports have we some sort of distribution commission model in South America and developed countries, where in the local player pitches a products and capability to customer help in running this business, this could give many profitable orders, since local cost of manufacturing in South America shall be at least twice as a cost. So are we going with a partner led model in South America as a question I guess given cost competitive advantages as far as Indian manufacturing is concerned.

Prayasvin Patel: See, as of now we are operating through dealers and agents in South America. But going forward we could, if possible, like to even tie up with domestic companies where we can supply part of the product, part of it would be localized. There would be an involvement, and the client would get the product lot more cheaper and competitive and this after sales service will be properly maintained.

Diwakar Pingle: I think that answers, we have a follow on question from the line of Ankit.

Ankit: Sir, couple of things. So first of all, on your interest costs. So with majority of your interest costs are expected to come below 10%, so on a debt of around 200 crores will your absolute interest costs be around 20-25 crores going forward on an annualized basis.

Narasimhan Raghunathan: Yeah, going forward you are right. At around a 10% cost of debt, we should look at 10% of the debt approximately.

Ankit: The current interest cost of 50 crores will come down to 20-25 crores.

Narasimhan Raghunathan: Yeah, correct.

Ankit: Okay. And the second is that what is the unexecuted order book from navy currently and do you expect any repeat orders from navy going forward.

Prayasvin Patel: There is a tendering process. So, they invite bids from various parties and then they select. As far as we are concerned, there are good amount of projects coming forward, and we are in a position to, I could say, quote reasonably competitive prices so the possibility of us getting orders in the future are reasonably high.

Ankit: What is the current order book.

Prayasvin Patel: Right now we are executing the project for seven ships sets for stealth frigate battleships, which would get completed by the first quarter of next year.

Ankit: In absolute amount I need. I mean how much worth of crores is your unexecuted order book from navy.

Prayasvin Patel: Narasimhan, would you be able to answer that.

Narasimhan Raghunathan: It’s around 70 crores.

Ankit: And lastly on what is the working capital in your gear business in terms of receivable, inventories and creditor days.

Narasimhan Raghunathan: It’s around 3 months.

Ankit: So 3 months is the net working capital.

Narasimhan Raghunathan: Gross working capital.

Ankit: If bifurcated in receivables and inventory, what kind of credit you get.

Narasimhan Raghunathan: Approximately, on the receiving side ranges between 90 days or so. In terms of payable it’s around 60 days. Then inventory depending upon the type of inventory varies.

Ankit: Okay. Thank you.

Diwakar Pingle: Thank you Ankit. We'll take the last question from the line of Manan Shah which is a follow on question. Manan, please go ahead.

Manan Shah: Hi, thanks for the follow up. Sir, my question was on the export side. So, earlier you mentioned that we had hired a decent team on the US side but that team was unable to deliver, but of recent and over in the past call, today as well you sounding pretty positive on the export front. So, I just wanted to understand what kind of challenges that we were facing earlier and what’s the reason behind this bullishness for exports is.

Prayasvin Patel: As I told you, I don't mind repeating it, I've said this in the past and I would again like to repeat that when we initially started our operations in United States, we had 14 people who were from this line of business, and we had appointed them from the competitors, and put in an entire marketing team to there because United States is a large country with 50 states, I mean we had a lot of marketing people, positioned in various states all over the country. They were unfortunately being monitored by a marketing head who was stationed in California. We tried doing this, which had a very high salary budget that we're spending on them, but it did not give us the desire business. Now we have dissolved that entire setup and we have set up our own setup, where we have our marketing people, which are the best marketing person and application engineering, we deployed out there from India. And we really looked at the market made various changes in how we sell so that we don't generate very high costs, and are still competitive and are still able to meet with the reach that is required for such a large market. And that is what we have been able to do, and we have been started getting good results.

Manan Shah: Okay, thank you.

Diwakar Pingle: That was the last question. I would now like to hand over the call back to Mr. Prayasvin Patel for his closing comments, and I think for a couple of you who had some trouble logging in, apologies for the same I'm really not sure what happened, but we'll ensure that this doesn't happen in the future, take responsibility for that. With that Mr, Patel, closing comments.

Prayasvin Patel: Thank you. First of all I would like to say that, please go to our website and look at the presentation which should answer most of the questions that even the people who have not been able to log in, would be able to get the answers. Apart from this, if there is anything you can even please email to us and we would be very happy to respond. The next thing I would say is that the first quarter has been very healthy, the performance has been extremely good. We, from what we are able to see through the eyeglass, I would say that the whole year performance is likely to be healthy because of the reasonable inflow of orders that we already have and going forward, all our marketing team, nationally and internationally are very positive. Considering the inquiries on hand and the possibilities, we feel that this year is definitely going to be one of the years which is going to be better than what we performed last year. And going forward, if we are able to maintain the momentum which we are very confident of the company is on the rise and it will continue to do so, because the bleeding which was there in material handling has also going to be stopped, which is on the verge of stopping and is going to be stopped. So thank you very much for your sustained interesting in Elecon and the hope that we will see you once again in the next call. Thank you.

Diwakar Pingle: Thank you so much members of the management and all the investors for logging in, and as Mr. Patel has said in case you have any questions you can either write to the company or Binay and I also look at it. Please write to us and we will kind of get back to you with any follow on question, comments or meeting. With that said have a good Monday and a great week ahead. Bye for now.